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## 11. Lesotho 2008 Country Commercial Guide

### Chapter 1: Doing Business in Lesotho

The economy of Lesotho, a mountainous southern African nation completely surrounded by the Republic of South Africa, is based on agriculture, livestock, light manufacturing, water exports, earnings from the Southern African Customs Union (SACU), and, to a decreasing extent, remittances from migrant laborers employed in South Africa. Lesotho also exports garments, diamonds, wool, and mohair. Due to its geography, Lesotho is economically dependent on South Africa in many sectors. The majority of households subsist on farming or migrant labor.

Mountainous Lesotho is the source of all of neighboring South Africa's major rivers. The nation's multi-billion-dollar Lesotho Highlands Water Project (LHWP), which was initiated in 1986, is designed to capture, store, and transfer water from mountain sources to South Africa's greater Pretoria-Johannesburg capital region. Completion of the first phase of the project has made Lesotho nearly self-sufficient in the production of electricity and generates approximately \$24 million annually from the sale of water (and limited amounts of electricity) to South Africa. The project was financed by the World Bank, the African Development Bank, the European Investment Bank, and other bilateral donors.

Lesotho has taken advantage of the African Growth and Opportunity Act (AGOA) to become one of the largest exporters of garments to the U.S. from sub-Saharan Africa. Exports totaled \$443 million in 2007, and employment reached 47,000 workers. Lesotho's 19 garment factories are primarily owned by East Asian manufacturing conglomerates.

Lesotho receives economic aid from a variety of sources, including the United States, numerous United Nations organizations, the World Bank and other international financial institutions, Ireland, the European Union, the United Kingdom, Germany, the People's Republic of China, Japan, various Arab funds, and several dozen international non-governmental organizations.

Lesotho has nearly 6,000 kilometers of roads. There is a short rail line (freight) linking Maseru, Lesotho's capital, with South Africa. Lesotho is a member of the Southern African Customs Union (SACU), and as such does not pay tariffs to export goods to other SACU members (Botswana, Namibia, South Africa, and Swaziland). With the exception of Botswana, these countries also form a common currency and exchange control area known as the Common Monetary Area (CMA). The South African rand can be used interchangeably with the Lesotho loti, the nation's

currency (plural: maloti). The loti is pegged at a one-one ration with the South African rand.

Lesotho, classified as a Least Developed Country, suffers from a serious HIV/AIDS pandemic which has ravaged the country's human resources, leading to declines in population, standard of living, and economic potential. The Government of Lesotho and the international community have engaged in an aggressive campaign to mitigate the effects of the world's third highest HIV prevalence rate and to reverse an alarming increase in new infections. To support these efforts, the United States coordinates the resources of two presidential initiatives, the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Account (MCA), to implement programming in prevention, care and treatment, health infrastructure, and human resources.

#### National Statistics:

GDP (2007): \$1.52 billion

Population (2007): 1.8 million

Annual Growth Rate (2006): 7.2%

Per Capita GNI (2007): \$5,926

Average Inflation Rate (2007): 9%

Natural Resources: Water, diamonds, and other minerals

Labor: Lesotho is an exporter of excess labor

Agriculture (2006 est.): 17% of GDP

Agricultural Products: corn, wheat, sorghum, peas, beans, wool, mohair

#### General Incentives

The following are Lesotho's current investment incentives (including incentives available only to companies who coordinate their investment through the parastatal Lesotho National Development Corporation):

- Unrestricted repatriation of profits;

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- Grants for employee skills training (up to a maximum of 50 percent of labor costs during the initial training period for a newly established manufacturing company);
- Unimpeded access to foreign exchange;
- Certain loan guarantees;
- Direct loans from the Lesotho National Development Corporation (LNDC);
- Equity participation (in selected cases) by the LNDC, in the absence of a private investor;
- Rebates on imported raw materials or components for use solely in the processing or manufacturing of goods for the export market;
- Provision of serviced industrial plots, customized factories, and commercial and residential properties for lease;
- A free enterprise and free market economic system; and
- No withholding tax on dividends distributed by manufacturing companies to shareholders

#### Export Incentives

Lesotho has an "Export Finance Scheme" to enable exporters to better compete in world markets. The main components of this mechanism are:

- Credit Guarantee Scheme: Provides LNDC loan guarantees to exporters' banks;
- Pre-Shipment Credit Scheme: Finances exporters' working capital needs on the basis of confirmed export orders;
- Post-Shipment Credit Scheme: Provides loans which enable the exporter to begin a new manufacturing cycle from the day of shipment until payment from the foreign buyer is received, thus allowing companies to offer favorable credit terms to their customers;
- Refinance Arrangement: Grants Central Bank capital to commercial banks in order to provide exporters with

concessionary export finance; and

- Counter-Guarantee Arrangement: The Central Bank assumes 95 percent of the risk associated with guarantees issued by the LNDC.

#### Investment Guarantees

While no investment code exists in Lesotho, the Government of Lesotho provides incentives to investors through legislation and the nation's constitution protects the rights of investors.

Lesotho is a signatory to the International Center for Settlement of Investment Disputes (ICSID) agreement which allows for foreign investors to gain international jurisdiction in legal disputes concerning investment in Lesotho. Lesotho is also a member of the Multilateral Investment Guarantee Agency (MIGA).

#### Taxation

As of 2007, the key features of the Lesotho tax system are:

- A corporate tax rate of 25 percent;
- 10 percent tax on manufacturing profit;
- 10 percent tax on farming operations;
- A zero percent corporate tax on income generated from exporting manufactured goods outside of SACU; and
- A maximum individual tax rate of 35 percent.

The government introduced a Value-Added Tax (VAT) in July 2003 at a uniform rate of 14 percent. Important food items are exempted from VAT. Double taxation agreements exist with South Africa, Mauritius, the United States, and the United Kingdom. A self assessment system was introduced in April 2004 to give taxpayers the responsibility of assessing their own tax liabilities and to comply as required.

## Chapter 2: Economic and Political Environment

### GOVERNMENT AND POLITICAL CONDITIONS

The Lesotho Government is a constitutional monarchy. The Prime Minister, Pakalitha Mosisili (elected in 2002; re-elected in 2007), is head of government and has executive authority. The King serves a largely ceremonial function; he has only limited executive authority and is proscribed from actively participating in political initiatives.

The Lesotho Congress for Democracy (LCD) controls a majority in the National Assembly (the lower house of parliament), with the All Basotho Congress (ABC), the National Independent Party (NIP), the Basotho National Party (BNP), and the Lesotho Workers Party (LWP) among the 9 opposition parties represented. The upper house of parliament, called the Senate, is composed of 22 principal chiefs whose membership is hereditary, and 11

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appointees of the King, acting on the advice of the prime minister.

The constitution provides for an independent judicial system. The judiciary is made up of the Court of Appeal, the High Court, Magistrate's Courts, and traditional courts that exist predominately in rural areas. All but one of the Justices on the Court of Appeal are South African jurists. There is no trial by jury; rather, individual judges make rulings or, in the case of criminal trials, with two other judges as observers. The constitution also protects basic civil liberties, including freedom of speech, association, and the press; freedom of peaceful assembly; and freedom of religion.

Lesotho held its first post-independence local government elections in 2005 using a quota system that reserved one-third of electoral divisions for women candidates. In these elections, 53% of the victorious candidates were women. For administrative

purposes, Lesotho is divided into 10 districts, each headed by a District Administrator.

### Chapter 3: Selling U.S. Products and Services

Foreign manufacturers and exporters are represented in the market either through their own branch offices or through authorized agent distributors. Distributors provide technical support to end users and usually have contractual arrangements with their principals.

#### Franchising

Franchising is used to a limited extent in Lesotho, successfully operating in the sectors of fast food, clothing, office cleaning, motor vehicle sales and repair, insurance, and fuel. KFC is the only American franchise currently operating in Lesotho.

#### Direct Marketing

Direct marketing is used in Lesotho for the sales of a variety of products, from insurance to household equipment. Companies such as Avon, Amway, and HerbaLife have built large businesses by direct marketing through local distributors.

#### Joint Venture/Licensing

In Lesotho, a local joint venture partner is often required, especially in the area of government procurement and tenders.

The Ministry of Trade and Industry operates as a "one-stop shop" for investors and, in 2007, reduced bureaucratic procedures to apply for required permits and licenses prior to foreign investment in Lesotho. The Lesotho National Development Corporation also plays a facilitating role for foreign investors by providing information to prospective investors, arranging site visits, and assisting with permits and licenses as well as certain operational problems.

To open a local office of a foreign company in Lesotho, a firm must first establish itself as a legal entity by registering with proper authorities: the Ministry of Trade and Industry, the Ministry of Labor and Employment, and the Department of Immigration within the Ministry of Home Affairs. The following documents should be submitted: 1) a letter of the company's intent to begin operations in Lesotho; 2) a letter appointing the company's official in-country representative; 3) the c.v. of the company's in-country representative; and 4) the work permit and identity documents of the company's representative. These documents should be submitted to the following address:

Commissioner of Trade  
Ministry of Trade and Industry  
P.O. Box 747, Maseru -100  
Tel: (266) 22-317-454

Representative offices in construction, engineering, or related consulting are fields required to register with the Ministry of Public Works. Foreign firms may fully participate in government procurement. Government procurement rules do not give Lesotho nationals preference in bids for goods and services contracts. However, the Ministry of Trade encourages joint ventures. Lesotho is not a signatory to the WTO Agreement on Government Procurement.

#### Advertising

Advertising through local media, including weekly newspapers and other periodicals, is recommended for introducing a new product.

Television advertising has grown rapidly and now outstrips print advertising in cost, although target audiences are limited to urban areas. Electronic commerce is not widely used, but the

more widely developed.

#### Pricing

U.S. firms may conduct their own market research to ascertain consumer preferences, cost of delivery, and preferred methods of distribution and advertising. Produce prices are best developed with advice from the local distributors who are generally well attuned to the competitive factors at play in specific markets.

#### Protecting Intellectual Property Rights

Lesotho's Industrial Property Order (1989), Copyright Order (1989), and Industrial Property Regulations (1989) are the nation's legal foundation for the protection of intellectual property rights. Patents are valid for 15 years from the application date, but have rarely been issued in Lesotho. Trademark protection, however, is widely sought and granted. Lesotho is a member of WIPO and the African Regional Intellectual Property Organization (AIPO). The law protects patents, industrial designs, trademarks, and copyrights. There is no apparent enforcement of intellectual property laws with regards to copyrighted music or films.

#### Chapter 4: Leading Sectors for U.S. Exports and Investment

According to the Lesotho National Development Corporation (LNDC), Lesotho's lead sectors for investment and export, and their appropriate codes, are as follows:

HS2-61: Articles of apparel and clothing accessories, knitted or crocheted

HS2-62: Articles of apparel and clothing accessories, not knitted

HS2-XX: Diamonds

HS2-60: Iron and steel

HS2-90: Electrical machinery and equipment and parts, sound recorders and reproducers, television recorders and reproducers, parts and accessories

HS2-XX: Knitted or crocheted fabrics

HS2-XX: Optical photographic, cinematographic, measuring, checking precision, medical or surgical instruments and apparatus parts and accessories

HS2-XX: Plastics and articles

HS2-XX: Wool and fine or coarse animal hair including yarns and woven fabrics

HS2-68: Articles of stone plaster cement asbestos, mica or similar materials

Lesotho's exports changed significantly in 2004 due to reinvigoration of the diamond mining sector. By the end of 2006, the sector generated exports worth \$90 million, positioning it second behind the textile industry in terms of importance for the country's export base. Three mines are currently operational: Letseng, Lihobong, and Kao. A further two mines are expected to open in the coming years. Letseng diamond mine is expected to generate revenues of approximately \$40 million a year.

Textile sector growth was 1.3% in 2006 after a decline of 8% in 2005 in the wake of the expiration of the Multifibre Agreement. In 2006, exports were roughly at \$387 million, as compared to \$391 million in 2005 and a peak of \$456 in 2004. Lesotho's small but expanding tourism sector is also viewed as a potential destination for foreign investment. Other potential industries include consumer electronics, leather goods, toys, plastics, and sporting goods.

#### Chapter 5: Trade Regulations, Customs and Standards

Lesotho applies the SACU common external tariff. Additional charges include customs clearing fees ranging from \$130 to \$175 per shipment. Lesotho also enforces an import permit system for all imports from non-SACU member-state companies. This system is applicable to all consignments imported by individual

consumers or investors. Manufacturers are accorded preferential treatment, however, and granted blanket import rights for a period of 12 months and an additional grace period of three months.

The agricultural sector benefited from structural reforms in recent years, including removal of price subsidies and import controls on maize and wheat. The Agricultural Marketing Act controls the importation of bread, legumes, sugar, eggs, meat, dairy products, fruits, and vegetables.

With the exception of eggs, sugar, and legumes, import

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restrictions include provisions allowing for small consumer purchases made outside the country. The Department of Marketing, under the Ministry of Trade and Industry, monitors the level of production of these commodities and issues import licenses in the event of short supply. National production does not meet local demand in most sectors, and as result, import permits are routinely issued. Non-automatic licenses are necessary to import used clothing.

#### Membership in Free Trade Agreements

Lesotho is a party to the SACU-EU Free Trade Agreement, the Africa Caribbean and Pacific-European Union (ACP-EU) Agreement, and the Cotonou Trade Agreement. Lesotho is also a member of the World Trade Organization.

#### STANDARDS

Lesotho does not have a national standards body. The Standards and Quality Assurance Section of the Ministry of Trade and Industry functions as a focal point for standards and quality assurance issues. No national standards have been developed to date. Industries in Lesotho have traditionally relied upon the South African Bureau of Standards for voluntary standards facilities and quality assurance mechanisms. Local exporters have developed their standards in accordance to technical quality requirements of importing countries and international standards.

Lesotho participates in a SADC regional program on standardization, quality, and accreditation. The program aims to harmonize standards across member states.

#### Chapter 6: Investment Climate Statement

##### Openness to Foreign Investment

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Lesotho is open to foreign direct investment (FDI) and generally treats foreign investors favorably. However, Lesotho's legal framework with regards to FDI is not well developed, and thus problems exist with regards to transparency and consistent application of the law. Lesotho has found success in attracting FDI to its export sector. Foreign investors in the apparel and footwear industries have created new jobs and contributed to poverty reduction. Current business taxation and regulation provisions only partially address investor needs, and the Government of Lesotho (GOL) is under pressure to update relevant laws affecting investors in various sectors.

Ninety percent of FDI in Lesotho flows into export-oriented manufacturing, a sector stimulated largely by the U.S. African Growth and Opportunity Act (AGOA). This FDI created an apparel sector which now provides over 40,000 jobs. The single largest investment is believed to be the US\$90 million capital infrastructure investment of Nien Hsing Group in Taiwan. Foreign firms in Lesotho concentrate their production on a narrow range of products, such as knit apparel and blue jeans. Foreign companies also invested smaller amounts in footwear production, electronics components assembly, food processing, and miscellaneous small-scale manufacturing.

Lesotho's telecommunications sector has also attracted FDI. An international consortium composed of ESKOM Zimbabwe's Econet Wireless International and Mauritius Telecom owns 70% of Telecom Lesotho. Lesotho has a relatively high penetration of telephone connectivity relative to its low per capita income. Communications services have been extensively modernized and expanded over recent years, although significant portions of mountainous rural Lesotho remain without such services.

FDI in air transportation has not been successful. The parastatal Lesotho Airways closed in 1997 due to its inability to attract FDI. Air routes to and from Maseru are now handled exclusively by South African Airways, and are limited to the Maseru-Johannesburg route. Foreign investors have not contributed significant capital in the tourism sector, including activities aimed at protecting the natural environment and ecological attractions.

FDI in the mining sector has experienced a revival through the reopening in 2004 of Lets'eng Diamonds, a partnership between a South African-owned company and the Lesotho Government. The mine in the northeast Lesotho district of Makhotlong employs about 50 people, most of whom are Basotho nationals. A European mining company and the GOL jointly operate another diamond mine in Lighobong, as well as the Kao kimberlite pipe in the northern district of Butha Buthe. South African companies are currently prospecting the Kolo mine in southern Lesotho. In its attempt to attract FDI in the mining sector, the GOL offers a number of

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concessions to foreign investors including VAT exemptions on inputs used during construction and withholding tax exemptions on dividends and interests payments. In return, the Government of Lesotho is granted an eight percent royalty on gross diamond sales, a 12.5% equity interest in joint ventures with foreign companies, and a 12.5% share of dividends. Major diamond finds in 2006 and 2007 generated worldwide media coverage.

#### The Origin of Foreign Investors

Lesotho's apparel sector is entirely East Asian and South African-owned, and currently employs approximately 40,000 people. Two factories are under Taiwanese ownership, two are owned by Hong Kong concerns, one is Singapore-owned, and eight are owned by South African firms. The rest of the approximately 19 factories are owned by PRC investors. None are under local ownership. South African FDI is present in footwear factories, four electronics firms, the Sun Hotel chain, air transportation, insurance, telecommunications, financial services, and mining. FDI from other countries includes Canadian mining interests and U.S. and Chinese investment in food processing industries.

Lesotho's success in attracting FDI has been limited largely to export-oriented manufacturing. No foreign ownership at any level, including positions on boards of directors, is permitted in reserved trading license businesses (i.e., small scale retail and services operations). The restrictions on foreign involvement in small scale services provision and manufacturing are perceived as instruments of immigration control, as there is a great deal of political sensitivity regarding small business owners from Asia. Many trading businesses and all medium to large manufacturing businesses are open to FDI. Nevertheless, a relevant trading or industry license is required and must be renewed annually.

Generally, foreign investors are treated equally with domestic investors. One significant exception is a prohibition on foreigners holding land lease titles (land may not be purchased in Lesotho, as all land is officially owned by the crown). Lesotho has no legal provisions discriminating among various FDI source countries. Lesotho's membership in SADC does not lead to preferential treatment for investors from other SADC countries. Lesotho's standards of foreign investment protection are good in practice, but the legal framework guaranteeing these norms is weak. For example, there is no foreign investment law, and

Bilateral Investment Treaties (BITs) have been concluded with only two countries -- the United Kingdom (1981) and Germany (1985).

#### Conversion and Transfer Policies

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Lesotho uses traditional foreign exchange controls, though its participation in the Southern Africa Common Monetary Area (CMA) restricts the independence of its monetary policy. The CMA includes Lesotho, Namibia, South Africa, and Swaziland. Under the CMA, the South African rand, alongside the Lesotho loti, is legal tender in Lesotho. Under CMA rules, the loti must be exchanged at a one/one ratio with the rand, and the rand/loti peg must be maintained with reserves in rand and other foreign exchange. There are no exchange controls between Lesotho and South Africa, but CMA members agree to enforce exchange controls with third parties.

The Government of Lesotho delegates authority to commercial banks to undertake current account transactions, and Lesotho has acceded to Article VIII of the International Monetary Fund. However, dividend payments still require the Central Bank approval. The Central Bank of Lesotho (CBL) maintains direct powers of approval over foreign exchange requirements for all capital account transactions including FDI, capital disinvestment, and contracting and servicing offshore debt. There has never been a case of CBL blockage of such transfers. Lesotho is a member of the Southern African Common Policy on approval of foreign loans. However, policies on foreign borrowing are not strongly developed as there is insufficient foreign borrowing by resident businesses.

#### Expropriation and Compensation

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Lesotho's constitution states that the acquisition of private property by the state can only occur for specified public purposes and in exchange for full and prompt compensation. Any party subject to such expropriation has the right to appeal the action or the compensation offered to the nation's High Court. The constitution does not address whether compensation may be paid abroad in the case of a non-resident. Under existing constitutional provisions, several mining companies filed a case

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in 1999 against the Lesotho Water Highlands Project and its financiers alleging that their mineral lease rights were unlawfully expropriated without compensation when a new dam flooded a potential mining area. Lesotho's courts found in favor of the Lesotho Highlands Water Project and its financiers, stating that all proper regulations and notifications were followed prior to the dam construction.

#### Dispute Settlement

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Foreign investors have full and equal recourse to Lesotho's courts to settle commercial and labor disputes. The nation's courts are regarded as fair and impartial in cases involving foreign investors. In complex commercial cases, overseas judges may be invited to the bench. Under Lesotho's BIT agreement with United Kingdom, an investor may take a dispute with the Government of Lesotho to international arbitration, but the BIT agreement with Germany does not address this issue. Lesotho is member of the Multilateral Investment Guarantee Agency (MIGA) and has acceded to the Convention on Settlement of Investment Disputes between States and Nationals of Other States.

#### Performance Requirements

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There are no blanket incentives specifically for foreign investors and no performance requirements imposed exclusively on foreign investors as a condition of investment. The principal business taxes in Lesotho are income tax, customs fees, excise duties, and value added tax. Corporate income taxes heavily favor investment in manufacturing, as income is taxed at zero percent and there is no withholding tax on dividends paid to non-residents. Income in all other sectors is taxed at 35%, and there is a further 25% withholding tax on non-resident dividends. Moreover, only industrial buildings qualify for depreciation allowances. Buildings for services, tourism, and farming are not depreciable. Also, infrastructure such as land improvements and site services do not qualify.

#### Right to Private Ownership and Establishment

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Foreign entities have the right to establish enterprises in Lesotho, but many types of new businesses require specialized licenses (see section A.8. below). Lesotho has no competition law or overall competition regulator. Instead, under the industrial and trading licensing system, a business can apply for protection from competition for up to 10 years.

#### Protection of Property Rights

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As discussed in the sections on intellectual property rights and expropriation/compensation, Lesotho generally respects private property rights. Lesotho's constitution forbids the deprivation of private property from individuals and businesses without proper legal proceedings.

#### Transparency of the Regulatory System

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The judicial system is fair and competent in commercial matters. The government is willing to supplement the bench with foreign judges in cases requiring specialized expertise. Generally, there is adequate regard for contracts with foreign parties and equal treatment of foreign investors before the courts in disputes with national parties or the government.

Corporate law is based on the Companies Act of 1967 which provides reasonable standards for corporate behavior. However, it has been criticized as both incomplete and overly complex. Technical improvements were incorporated in a 1998 draft of a revised law, though it was never passed by parliament.

The regulatory framework for utilities is modern, while many analysts judge mining regulations to be outdated. Lesotho's current mining legislation gives the authority to grant land rights to the King and traditional chiefs upon the recommendation of a Mining Board, rather than to a government ministry. Financial services regulation is sufficient. However, the industrial and trading license system, which requires licenses for 44 types of business, has over the years lost its original purpose of protecting new firms from competition. Some enterprises can require up to four licenses for legal operation.

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The Lesotho Telecommunications Authority (LTA) acts as an independent regulator of the telecom industry. The LTA sets the conditions for the entry of new competitive operators, although it maintains Lesotho Telecom's monopoly on fixed line and international services.

Current banking regulations do not grant the Central Bank of Lesotho power to direct interest rates, exchange rates, margins, or the range of services offered by banks operating in Lesotho. This is due to the currency peg with the South African rand,

which relinquishes Lesotho's leverage with regards to monetary policy and also creates a lower political risk environment for banking investment.

#### Efficient Capital Markets and Portfolio Investment

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Lesotho hosts three foreign-owned banks: First National Bank, Ned Bank, and Standard Bank (the latter bought a 70% share in state-owned Lesotho Bank). The financial base of these banks is sound, as they are supported by foreign-based capital. Judgments as to the market-orientation of credit provision by these banks are difficult as very little credit is extended to local consumers. Industrial and commercial credit is provided by the parastatal Lesotho National Development Corporation (LNDC). The LNDC's mandate is to promote and facilitate foreign investment.

#### Political Violence

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Rioting and violence associated with an attempted coup d'etat in 1998 still cast a shadow over today's investment environment. The country has made considerable strides in the intervening decade to consolidate and strengthen democracy, but there is room for improving investors' confidence. Following a free and peaceful February 2007 general election, Lesotho experienced several civil disturbances and general strikes associated with a political impasse over the allocation of parliamentary seats. In the wake of June 2007 attacks by unknown gunmen on the residences of prominent government and political leaders, the Government of Lesotho imposed a two week long dusk until dawn curfew in Maseru. Political tensions between governing and opposition parties continue, but the national political atmosphere is generally calm.

#### Corruption

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Investors reported that corruption is not a significant factor affecting their investments. Anti-corruption legislation passed in 1999 was implemented through the creation of an autonomous anti-corruption unit, the Directorate on Crime and Economic Offenses (DCEO). The Government of Lesotho actively prosecutes corruption cases at various levels of authority, including recent cases against the former Principal Secretary of Justice and Constitutional Affairs, a former Deputy Commissioner of Police, and various foreign and domestic parties engaged in the Lesotho Highlands Water Project. According to independent indicators used by the Millennium Challenge Corporation, Lesotho scores among the top nations in its economic peer group with regards to the control of corruption.

#### OPIC Insurance Program

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The Overseas Private Investment Corporation (OPIC) insures one American investment in Lesotho, Seaboard Corporation's joint venture with Lesotho Flour Mills, which began operations in 1998 and currently employs approximately three hundred people. This is OPIC's sole current activity in Lesotho.

#### Labor

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Lesotho's employers operate under the Labor Code Order of 1992 which regulates terms of employment and requirements for worker health, safety, and welfare. It was amended in 2004 to address HIV/AIDS policies in the workplace. Unionization is permitted. The law created an independent Directorate of Industrial Dispute Prevention and Resolution. Statutory minimum wages are set annually by the Ministry of Labor and Employment in accordance with recommendations from a Wages Advisory Board including

worker, management, and government representatives. In 2001, Lesotho ratified ILO Convention 182 on the Prohibition and

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Elimination of the Worst Forms of Child Labor and Convention 138 on Minimum Age of Employment.

The Labor Code Order of 1992 requires every non-citizen employee or self-employed person to have a valid work permit. A work permit is issued by the Labor Commissioner who, by regulation, must be satisfied that no qualified Lesotho citizen is available for the position. The statutory maximum duration of a work permit is two years.

#### Foreign Direct Investment Statistics

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Lesotho's FDI statistics since 2004 are estimated as follows:  
(currency figures are in millions)

Year	2004	2005	2006	2007
FDI Stock in Maloti	343.68	364.37	623.00	745.03
FDI Stock in \$	49.09	52.05	89.00	106.43
FDI as % of GDP	0.03	0.04	0.06	0.07
GDP Purchasers' Prices in \$	1419.85	1438.94	1445.71	1481.89

Source: FDI stock data from the Central Bank of Lesotho, GDP data from the Bureau of Statistics Website (National Accounts)

Lesotho's FDI data is incomplete and does not currently meet the needs of policy makers. The Central Bank estimates FDI using information received from Lesotho National Development Corporation (LNDC) and, as such, the data sometimes include planned (not actual) projects, leading to possible overestimation. This data does not capture the reinvestment element of FDI inflows. By confining this data to initial equity investments, the figures ignore later investments financed by retained earnings from foreign companies already in Lesotho. This could lead to an underestimation of FDI volume.

#### Chapter 7: Trade and Project Financing

##### Banking System

Lesotho's banking system is essentially foreign owned by South African Banks (Standard Bank, NedBank, and First National Bank).

Lesotho's banks are supervised by the Central Bank of Lesotho through the Financial Institution Act of 1999. Local currency accounts for individuals can be opened with any bank through the presentation of a valid identity document. For the opening of business accounts, applicants must submit an application letter with copies of authorized signatures.

Due to Lesotho's currency peg with the South African rand, Lesotho's banking regulations do not give the nation's Central Bank power to direct interest rates, exchange rate margins, or the spread of services offered by banks. Lesotho partially liberalized capital account transactions in 2003, and abolished current account controls in 1993. There are no credit rating agencies in the country, but Fitch Credit Rating has given Lesotho sovereign credit ratings for the last three years, which is currently "B" for the nation's short term issuer default rating.

## Project Financing

Multilateral financial institutions such as the World Bank, the African Development Bank, the European Union, the Kuwait Fund, the Saudi Fund, and BADEA all lend capital to Lesotho for infrastructural development. In addition, in 2007 Lesotho signed a compact agreement with the USG-financed Millennium Challenge Corporation for a \$362.5 million grant for investment in water, health, and private sector infrastructure.

## Chapter 8: Business Travel

All U.S. citizens traveling to Lesotho are urged to visit the Embassy's website (<http://maseru.state.gov>) for the latest travel information. Basotho traveling to the United States require visas and must schedule an appointment and complete a visa application form online and personally present themselves

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for an interview at the U.S. Embassy in Maseru. All visa applications must be completed online. For more information, please visit U.S. Embassy Maseru's consular information website ([http://maseru.usembassy.gov/visa\\_services.html](http://maseru.usembassy.gov/visa_services.html)).

## Business Custom

Business meetings in Lesotho are normally held in offices rather than over meals, although there are occasionally one-hour breakfast or lunch meetings. Business attire is similar that in the United States. It is advised to reconfirm appointments as delays are common. Meetings are generally conducted in English. Most businesses are open Monday through Friday and close for lunch between 1:00 p.m. and 2:00 p.m. Business cards are an important feature of the professional environment.

The time difference between Lesotho and United States is seven hours during daylight savings time in the U.S., six hours during the rest of the year. The currency unit is loti or the South African rand, and the average exchange rate for the current period is 1 USD = 7 Maloti/Rand. Lesotho uses metric system for weight, volume, and length measurements.

## Chapter 9: Contacts Market Research and Trade Events

No large trade shows are currently planned in Lesotho for 2008. The Government of Lesotho's primary contact for market research is Mr. K. Cekwane, Director of the Marketing Division of Lesotho's Ministry of Trade and Industry (telephone: +266-22-31-7454).

## Chapter 10: Guide to Our Services

### Commercial Advocacy

The U.S. Embassy's Economic Section provides commercial advocacy to U.S. firms intending to do business in Lesotho. Primarily, this involves scheduling meetings with potential business agents, partners, and government officials and performing limited research in areas of interest. The Economic Section also liaises with American firms in specific development-oriented sectors to assist in identifying trade opportunities with local partners.

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